CTC Investor Relations

Market News

November 2017

A monthly review of IR developments for our clients and friends. . .

Should you discourage an analyst from covering your company?

Eleven percent of Investor Relations Officers surveyed said they have actively discouraged an analyst from following their company. The survey of 685 IROs surprisingly showed that this has occurred in small- and mid-size companies as frequently as in large companies. The most common issue: managing the time to meet with analysts and prepare the messaging. Then there is the perceived quality of the analyst or the reason to cover the company. Followed by the lack of influence or value the particular analyst or the firm might bring to the company.

Most sell-side research fails to provide long-term outlook

According to a report published by Aviva Investors, sell-side research focus is too short-term, failing to consider non-financial drivers of a company's long-term performance. Forty-two percent of the 342 analysts surveyed by Aviva Investors admit that sell-side research has a short-term focus. Moreover, only 35 percent admit to tackling controversial topics that might be perceived as negative. Many of the analysts would like to provide in-depth research but say they are unable to because of commercial conflicts of interest and time spent on non-research activities. The report recommends the industry seize the opportunity presented by Europe's MiFID II, which changes how asset managers pay for research they use, to encourage sell-side research to include long-term and sustainability issues while giving the total picture of a company, the negative as well as the positive.

What will the hot topics be in the approaching 2017-2018 audit cycle?

Tremendous change in business, the economy, technology and regulations will have auditors looking for eight red flags in the coming audit season. With the Equifax breach fresh, reviewing cybersecurity and its threats will be key for auditors. The retail turmoil caused by e-commerce will prompt careful review of retail companies and any business exposure to the retail sector. If you are doing business with states, municipalities, or even private enterprises that receive public funds, expect review of how you address this exposure in audited financials. For reporting periods beginning after Dec. 15, 2017, public companies are required to adopt the new revenue recognition standards. The SEC promises to review non-GAAP measures to ensure they're not emphasized at the expense of GAAP presentations. So will your auditors. They will also ensure companies provide visibility and transparency to the financial results of each operating unit. Companies will have to prove they have the ability to repatriate cash from overseas operations, if necessary, to cover obligations and tax impacts. Boilerplate in MD&As will need to be replaced with meaningful transparent explanations of the business.

The report of the demise of hedge funds was greatly exaggerated

It wasn't a year and a half ago that investors were writing off hedge funds as overpriced and under-performing. But 2017 has bought new life to the average hedge fund, which is up 5.4 percent. Since the end of August, stock-focused hedge funds have gained 8.3 percent, according to researcher HFR, their best relative performance since 2010. Over the same period, the S&P 500 rose 11.9 percent, including dividends, while a traditional 60-40 split of stocks and bonds earned 8.9 percent.

Director pay shows healthy gains

You might want to find a seat on a board of directors of one the 500 largest U.S. companies. They have reaped an average 20 percent raise over the past five years, from a record median $205,000 in 2012 to $245,000 in base pay and equity this year, according to research firm Equilar. Cash awards, given by 98 percent of companies, increased from a median of $75,000 to $90,000 over the same period. However, some elements of director pay, such as meetings fees, have declined and are falling out of favor, as just 14.5 percent of companies awarded them to directors last year, down from 29.5 percent in 2012.

Few can fill shoes of a CEO

On average, directors of Fortune 250 companies believe fewer than four people inside and outside their company has management expertise and has sufficient knowledge of their industry to step into the CEO role and run it as well as its current leader, according to a Stanford University survey of 113 directors. Researchers blame the limited number of candidates on directors' difficulties judging whether a prospect might succeed and their industry's need for chiefs with hard-to-replicate skills. Also, increased complexity of the global economy and less interest by professionals to take on the demand of the top manager's role was mentioned. Tech companies had the fewest eligible candidates.

FAST Act takes big step toward simplifying disclosures

The Fixing America's Surface Transportation (FAST) Act of December 2015, meant to simplify filings to make them more readable while utilizing technology to make them more accessible, got a big boost earlier this month as the SEC endorsed a staff proposal. The proposal would eliminate unnecessary burdens, including seeking regulatory approval to withhold contract information from filings that are commercially sensitive and allowing for the omission of executive personal information that pose a risk, such as Social Security numbers, addresses, or date of birth. Disclosure would also be written in simple language investors can understand, eliminating industry jargon and boilerplate language, while companies would only be required to compare their performance during the two most recent years, versus going back additional years. The next step of the regulatory process is a 60-day comment period before a final vote on the regulation.

Leverage reaching an all-time high

S&P Global Ratings reported that debt leverage at some 2,200 U.S. non-financial companies is approaching a record number at four times EBITDA. Despite low-cost borrowing amid today's easy credit environment, speculative-grade companies could find themselves struggling to secure new financing as the Feds start down the path of interest normalization. The report notes that the retail, technology and health care industries are the most at risk.

New tool monitor how you say it, not just what you say

Prattle, a speech-analysis platform developed to parse Fed-speak, is now picking apart earnings calls to find "tells" in speech patterns and phrases for market-moving insights. Started by a former Brown University economics professor, Prattle is among several analytical tools that Nasdaq offers to institutional investors. Prattle's creators claim it can link historical speech patterns with stock performance by comparing how certain words, phrases, and sentences have preceded past movements. In September 2015, Prattle claims it correctly forecast that the Fed would hold interest rates steady, even though many in the market expected a rate hike. Prattle is analyzing IR communications from nearly 3,000 U.S. issuers.

♦ ♦ ♦ ♦ ♦ ♦ ♦

For investor relations or market questions, or to discuss our consulting services, please contact us at (937) 434-2700, or e-mail ctc@irbyctc.com